



THE UNITED STATES VIRGIN ISLANDS

OFFICE OF THE GOVERNOR
GOVERNMENT HOUSE

Charlotte Amalie, V.I. 00802
340-774-0001

May 30, 2007

Honorable Usie R. Richards
President
27th Legislature of the Virgin Islands
Capitol Building
St. Thomas, Virgin Islands 00802

Dear President Richards:

Enclosed is the Executive Budget for Fiscal Year 2008. This budget is the first of my Administration, and reflects many of the initiatives that Lieutenant Governor Gregory Francis and I believe are central to the provision of superior public services in our Territory. It is our sincere intent to work very closely with you and the members of the V.I. Legislature to ensure that the people of the Virgin Islands receive the very best that our collective leadership can provide.

There are many issues and deeply rooted challenges that we must address in order to lead the Territory into the future. This budget takes the first steps in that process, but by no means is it a panacea for all that ails us. It does, however, establish the foundation and the base to which will be added more initiatives to address our challenges.

Our financial condition remains precarious and fundamental problems still exist that will take several budget cycles to address, but it is critical that the process of adjustment to historically wrong patterns of public sector management begin. Over the years, our operating budget has failed to fund a number of our legal obligations, and year after year these debts have accumulated. For example, we have a significant unfunded pension fund liability, and we continue to increase future benefits even as we fail to fully fund our current obligations. We have the retroactive salary obligations owed for many years to our employees. At the same time, we have remaining on our financial books encumbrances and appropriations carried forward going back several fiscal periods that restrict our use of current resources. Among my goals over the next year will be to bring our financial reporting current with regards to our audited financial statements, to have these historic encumbrances and appropriations addressed and reconciled, and to make sure that our budget and reporting practices fully and accurately reflect the extent of our financial and legal obligations.

This budget begins to address these and other issues, including challenges in reforming public education and improving public safety, challenges that are and will continue to be priorities for my Administration. Consistent with our commitment to truth in governing, I offer you a document that accurately depicts our current fiscal situation and makes an effort to bring about an environment of openness and transparency in government.

In the area of education, you will note a major structural change in the way in which resources are allocated. Through a process of reallocating resources by district, and transferring more managerial responsibility for the day-to-day operations to the District Superintendents and away from state-level administrators, we can better address the needs of our children, give our front-line educational leaders the tools they need, and ensure that more money is spent in the classroom rather than on administration. In addition, this structure allows for a more timely response to the needs of each District and their respective schools.

In this budget, we have increased the appropriation for teacher professional development and certification. We have increased the per pupil spending levels and lowered the student-teacher ratio. Through the process of incorporating funding for maintenance into the annual operating budget, and not waiting to apply for a supplemental appropriation later in the year as has been the practice in past years, we can better predict summer maintenance expenses. We have budgeted resources to hire two District facility managers to take steps to ensure that our children have well-maintained facilities in which to learn.

In the important area of Public Safety, you will note similar structural changes to the administrative staff as in the Department of Education. As I promised when I was sworn into office, I have created separate chiefs of police representing each District. This change will allow for improved management and a better level of service from our Police Department.

Specific Public Safety appropriations include: \$4 million for 911 system improvements, including new transmission towers and other equipment; a department recruiter to bring staffing levels to where they need to be, coupled with a new recruitment program; a new cold case squad to unburden the bottleneck of unsolved cases; and finally a new training officer and training program to ensure our officers are fully prepared to deal with all that may come in their hazardous and often times unheralded service to our community.

We have also begun what will prove to be a long, and at times arduous, process of addressing the unfunded liabilities that we have accumulated in our Government Employees' Retirement System. We have budgeted \$30.0 million towards this effort, which includes an increase in the employer contribution to the retirement system from 14.5% to 17.5%. We are working toward full funding of these obligations, which we must and will address before the cost of doing so becomes too great a burden on our annual operating budget. This effort will be followed by the issuance of a Pension Obligation Bond to ensure that a cash injection is provided to the System while we meet our employer obligations at a higher funding level.

In addition to these initiatives, this budget provides for the following:

- A restructuring of the Department of Housing, Parks & Recreation, including the transfer of the housing component and the various loan programs to the Virgin Islands Housing Finance Authority to allow for improved coordination of local housing resources and enhance the development of affordable housing, and the creation of a new Department of Sports, Parks & Recreation to better manage our sports and recreational facilities;

- The transfer of the Virgin Islands Energy Office to the Office of the Governor to increase the attention and focus on this crucial aspect of our economy and the attainment of energy sustainability;
- Additional funding to conclude the Fiscal Years 2006 and 2007 Single Audits, the completion of which will bring us into compliance with the Federal Single Audit Act;
- Continued funding for negotiation of successor agreements for our many expired collective bargaining agreements; and
- The submission of a nominal Capital Budget that provides funding from the Internal Revenue Matching Fund proceeds to enable departments and agencies to upgrade their equipment and facilities.

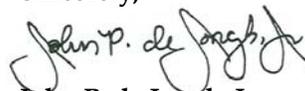
The General Fund operating budget for Fiscal Year 2008 is based on our net revenue projections of \$799.2 million. Most tax and other revenue categories will experience moderate growth. However, Real Property Tax collections will increase substantially with the collection of two calendar years' property tax bills during the fiscal year. These bills are expected to be based on the new valuations that have been ordered by the District Court. Notwithstanding this growth, as a result of the reduction in fund contributions to the General Fund, the total Fiscal Year 2008 revenue projection of \$799.2 million is 0.6% lower than the most recent Fiscal Year 2007 revenue estimates of \$804.3 million. This was caused by reductions in transfers from the Internal Revenue Matching Fund, which will be used for the Capital Budget, the Insurance Guaranty Fund, and the projected reimbursement for the Department of Education Federal grant funds.

For the remainder of 2007 the economy is expected to show modest growth, with the construction and retail trade sectors as the prime movers. While changes in the residency and source of income rulings as a result of the American Jobs Creation Act have impacted the EDC program and resulted in a loss of jobs, activity in the tourism sector and strong private sector development are offsetting these losses and sustaining growth. The outlook is for stronger growth as we move into 2008, led by construction, manufacturing and tourism sectors, with new hotel construction and other public sector capital projects commencing within the next year.

I respectfully ask that you and each of the members of the 27th Legislature give due consideration to this budget. I renew my commitment to work with each and all of you in the months and years ahead to meet the challenges that we face in addressing our needs as a government and as a community. Please know that my door is always open to you and your Senate colleagues to discuss this budget and other issues in good faith, and in our common commitment to the welfare of the Virgin Islands.

Thank you for your consideration.

Sincerely,



John P. de Jongh, Jr.
Governor